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ABSTRACT

In July 1979, the Florida legislature commissioned a comprehensive evaluation of the state's educational fixed capital outlay (EFCO) program, through which the state funded all capital projects at all levels of public education. The study, completed for the 1980 legislative session, comprised 18 topical reports including EFCO funding recipients, history, budgeting processes, other states' programs, and policy-makers' concerns. Research methodology involved interviews, surveys, site visits, inventory validations, a literature review, and studies of administrative procedures. The study found that Florida's EFCO programs for elementary and secondary schools were not coordinated with those for higher education, and that the state department of education lacked legislative guidance for solving EFCO problems. It recommended improving the needs assessment processes, providing construction guidelines for local educational units, and using three new budgeting formulas for allocating funds to various educational levels. (Author/RW)

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FLORIDA EDUCATIONAL FIXED CAPITAL OUTLAY BUDGETING

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MGT OF AMERICA, INC.

Florida Educational Fixed Capital Outlay Budgeting

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ABSTRACT

In July 1979, the Florida Legislature commissioned a comprehensive evaluation of the State's educational fixed capital outlay program, with findings and recommendations to be presented for consideration in the 1980 Legislative Session. The study, completed in March 1980, focused on educating the Legislature and statewide educational officials concerning the workings of this complex, multibillion dollar program. Methodology included personal interviews, mailed surveys, literature review, site visits, validation of inventory and detailed study of administrative processes and budgeting formulas. Three new needs assessment budgeting formulas were recommended for: (1) new construction, (2) remodeling, and (3) renovation and repair.

FLORIDA EDUCATIONAL FIXED CAPITAL OUTLAY BUDGETING

Introduction

The State of Florida currently provides funds for educational fixed capital outlay projects for all levels of public education. Based on the recommendations of a citizen's committee appointed by the Governor, the Legislature proposed, and the people ratified, an amendment to the State Constitution which would provide a source of state funds for public school construction. The 1952 amendment pledged the first proceeds of motor vehicle license revenues to provide cash or amortize bonds for public school construction.

First funding of university projects date back to the inception of the postsecondary system. General revenue funds provided construction monies on a "pay-as-you-go" basis until 1961. In 1962 the "Student Building Fee Trust Fund" was created to provide a bonding revenue source and in 1963 a constitutional amendment pledged a tax on the gross receipts of utilities as the primary source of revenues for higher education construction.

Another citizen's committee was established in 1971 and made the following recommendation in its final report in 1973:

> "The Legislature should provide for a major construction effort designed to meet all school facility needs in the state by 1980... The state should pay the entire approved cost of capital outlay projects for school districts..."

The Governor pledged the State's share of Federal Revenue Sharing (FRS) Funds in 1973 for school construction and indicated

his desire to put FRS funds into school construction for the entire life of the program (then expected to be only five years.)

To distribute this money the Legislature enacted a uniform needs generation and fund allocation formula for public schools as a part of its operating fund formula reforms adopted in 1973.

In 1974 the Legislature adopted major reforms to the State's educational fixed capital outlay program. Originally aimed at public schools, the intent of the reform was "to guarantee to each student in the Florida Public School System the availability of an educational environment... which is substantially equal to that available to any similar student...". Thus the State placed the provision of equal educational facilities on the same plan as equalized operating funds.

Also adopted in 1974 was a constitutional amendment which allowed public schools to share in the proceeds of the gross receipts utilities tax. Prior to the adoption of this amendment vocational centers operated by the district school board had qualified for the funds since these centers were defined as "postsecondary institutions."

Community colleges were originally a part of the public school system and as such received capital funds from local revenues and motor vehicle license receipts. Community colleges, as postsecondary institutions, were also included as eligible recipients of the 1963 utilities gross receipts tax proceeds.

In 1968 the community colleges separated from the public school districts. Today the colleges continue to receive capital outlay funds from both the motor vehicle license receipts and utilities gross receipts tax.

Since adopting its major capital outlay reforms in 1974, referred to in Florida as "The Dubbin Act," the State's educational fixed capital outlay (EFCO) program has been in a continual state of upheaval and revision. The Dubbin Act was amended significantly in 1975, 1976 and 1977 as the Legislature sought to take each of the existing capital outlay programs -- public schools, community colleges and universities -- and merge them into a single program where need for facilities would be identified on a common basis, the allocation of funds would be equitable, and the expenditure of appropriated funds timely.

In spite of increased funding for capital outlay and generally stable enrollment on a statewide basis, the need for new construction funds began to increase significantly after the adoption of the 1974 and 1977 reforms. By 1979 the Legislature had reached a point of near frustration in its attempts to secure accurate information about the need to provide new educational facilities and remodel existing facilities throughout the state. It was also questioning the financial role of the state in the construction of public school buildings. As a result of these and other concerns, the 1979 Legislature deemed it advisable to seek the help of an independent, outside group of experts to evaluate the current EFCO program and to recommend improvements where necessary.

In July 1979, the Legislature entered into a contract with MGT of America, Inc., to conduct a detailed review of the current educational fixed capital outlay program and to report its findings, recommendations for improvements and necessary implementing legislation in time for action by the 1980 Legislature.

In March 1980, MGT presented its final report to the Legislature. This report consisted of an Executive Summary and recommendations, and 18 topical reports. The topical reports covered the following areas:

- Concerns of State Policy Makers
- Survey of EFCO Fund Recipients
- An Historical Perspective
- Space and Use Standards
- Educational Plant Surveys
- A Survey of Other States
- Facility Inventory Systems
- Space Utilization
- Site Visits
- Capital Outlay FTE
- The Administrative Process
- The Budget Process
- Funds Available-Cash Flow
- Earmarked Allocations
- Use of the Inventory in Budgeting
- Allocation Processes
- The Depreciation Formula
- New Construction Needs Formula

Scope of the Study

The study encompassed all aspects of the current Florida EFCO program, including:

1. survey of other states' EFCO programs
2. a historical perspective
3. state policy makers and educational officials' understanding of, and opinions concerning, the current EFCO program
4. study of the needs assessment and fund allocation budget formulas and all elements comprising the formulas, including:
    - inventory
    - enrollment projections
    - space-size and utilization standards
    - construction cost data.

5. assessment of the accuracy of the state educational inventory systems

6. review of current educational facility utilization studies

7. study of the needs assessment process (educational plant surveys)

8. study of fund administration and facility construction processes, including case studies

9. study of the legislative budget request process

The focus throughout the entire study was to educate the Legislature concerning the workings of the large and complex program; to identify its strengths and weaknesses; and to recommend improvements.

Methodology

A number of different data-gathering techniques and analytic procedures were used to conduct this study. These included:

1. interviews

2. survey questionnaire

3. literature review

4. site visits

5. participation in educational plant survey

6. detailed study of administrative procedures at both the state and local level

7. detailed study of the entire budget request process

8. detailed cash flow analysis

9. review of the law

Interviews

At the onset of the study, administrative officials and state policy makers in the Legislature, Department of Education

and several professional education associations were interviewed to document their concerns regarding the current program and processes used to determine existing and future EFCO needs.

Next, administrative officials from the fourteen most populous states (other than Florida) were contacted and interviewed by phone. They were asked the following questions:

1. What type of state aid program do you have for educational fixed capital outlay?
2. How is new construction need determined?
3. How are funds allocated?
4. Do you keep a current (less than 2 years old) facility inventory at the state level?
5. What was the source of the space definitions for your inventory?

While conducting site visits, local educational officials were interviewed to gather their comments concerning the current EFCO system. Finally, the Governor's staff was interviewed to determine his concerns of the EFCO program.

Survey Questionnaire

In the beginning of the study, a survey questionnaire was mailed to school officials at:

- each of the 67 public school districts in the state
- each of the 28 community colleges in the state
- each of the nine universities in the State University System
- the Florida School for the Deaf and the Blind.

In addition, an abbreviated version of the questionnaire was sent to individuals in various high-level positions in the

Department of Education, the Governor's office, the Legislature and state school associations.

The questionnaire was designed to obtain each respondent's assessment of the current educational fixed capital outlay program. The principal thrust behind the questionnaire items was directed at gathering information about the respondent's knowledge of, and attitudes toward, the many different aspects of the program. It also assessed the capital outlay financial needs of each district and institution and their relative priority, as perceived by each respondent with respect to his own educational setting.

Literature Review

A number of national organizations were contacted to identify recent or ongoing studies of state EFCO programs. From this search two such studies were identified and examined; one for Georgia and one for Utah.

The Georgia study covered public schools only, and revealed that their program was modeled very closely to the current Florida program. The Utah study, limited to public schools also, recommended an EFCO program requiring local effort, which is then equalized.

Site Visits

Six school districts, four community colleges, two universities and one educational TV station were selected for visitation by several survey teams. The sites were chosen to provide a full representation of different conditions within the state.

At each site, rooms were randomly measured and compared to the figures carried on the state inventory. In addition to this assessment of the inventory's accuracy, local educational officials were interviewed regarding their thoughts concerning the EFCO program.

Educational Plant Survey

An "educational plant survey" is mandated by law in Florida, to be performed every five years in order to identify needs and develop an EFCO plan for each school district and educational institution. Participation in a survey, as objective observers, formed another major part of the study.

Administrative Procedures

State level and local procedures for administering the EFCO program were examined in detail. This included an analysis of:

- the inventory system in each educational system
- facility utilization studies
- projection of student enrollments
- construction cost data
- actual facility construction case studies.

Budget Request Process

In 1975, the Florida Legislature dictated that an integrated, comprehensive budget request be submitted for all EFCO, and that need be equitably assessed across all levels. Each educational level had developed a different formula to assess need for budget purposes. This portion of the study closely examined all formulas currently used, including the budget "standards," and recommended new formulas and standards

which would more accurately fulfill the Legislative mandate. In addition, the sequence of events leading to the submission of the EFCO budget request was closely studied.

Cash Flow Analysis

A very lengthy and complex portion of the study involved an examination of the cash flow situation for EFCO over the past five years. Areas specifically addressed included:

- the process -- from legislative appropriation through cash disbursement by project
- all fund sources and amounts
- "advance" and "loan" programs
- the overcommitment of Florida EFCO funds

Review of the Law

In addition to recommendations in all other aspects of the study, all Florida laws relating to EFCO were examined, and legislation to implement the study recommendations was compiled.

Findings and Recommendations

In general the study concluded that over time, two separate EFCO systems had developed in Florida -- one for public schools (K-12) and one for postsecondary institutions. The 1974 Dubbin Act and subsequent amendments, while stating an admirable goal, i.e., the development of a single, uniform and integrated system, had failed to provide the necessary guidance and feedback to the State Department of Education (DOE) to insure that the job was properly done. Nor was there any on-going effort by the DOE to identify and correct obvious problems such as differences in definition of terms and unsatisfactory projection techniques.

The MGT final recommendations were grouped into four areas--

1. Determination of Needs;
2. Administrative and Budget Development Processes;
3. Formulas; and
4. Allocation of Funds.

Determination of Needs

The study found that the local inputs into the formulas that determine fixed capital outlay needs centered primarily in the following areas:

- educational plant surveys
- five year enrollment projections
- current inventory records
- utilization of existing space.

Educational Plant Survey. The "educational plant survey," process is conducted for every school district/educational institution at least once every five years. These approximately week-long procedures are led by state DOE professionals and staffed by educational personnel throughout the state -- on leave from their present job. Objectives of the procedure are to:

- validate the state inventory
- determine if each educational facility provides a satisfactory learning environment
- compile recommendations for projects to meet 5-year projected educational needs for the district/institution.

Research results indicated that the educational plant survey teams, currently made up of personnel from other districts or institutions, lacked the expertise necessary to adequately and satisfactorily perform their assigned tasks. These tasks ranged

from validating the accuracy of inventory records; to certifying that a facility is educationally and structurally satisfactory; to recommending the construction and general placement of new facilities. It was recommended that --

- inventory be validated through a sampling procedure prior to the survey process
- EFCO recommendations be developed at the school district/institution level, with review by a professional DOE staff with engineering, architectural, educational and space planning backgrounds, coming in to approve the recommendations.
- The DOE require updates to be included within survey documents following significant local changes.

Five Year Enrollment Projections. As part of the study, it was documented that each level of education had a different definition of a capital outlay full-time equivalent student (FTE) and that each method had, in the past, significantly overprojected expected enrollments. In higher education, projections for area vocational centers, community colleges and universities frequently used the same population pools. This "overlap" contributed to inflated enrollment estimates. It was recommended that a central unit in the DOE be responsible for making all capital outlay FTE projections and that a percentage reduction "penalty" factor be developed to offset future overprojections.

Current Inventory Records. During site visits inventory records were validated in six school districts, four community colleges and two universities. The following findings were reported:

- There was a lack of understanding as to measurement methodology among those actually performing the task. The resulting inventory varied as to accuracy and could not always be reproduced by subsequent measurement.

- No established procedures were followed for updating inventory records after an alteration or modification of current facilities took place. As a result, many rooms were listed as they were prior to renovation or alteration.

Table 1 shows the range of differences between the total square feet listed on inventory and that measured during the validation, for each district/institution. One school's inventory was 28% smaller than indicated by State records.

Recommendations included the development of an intra-divisional inventory manual which would define and describe measurement techniques, preferably based on nationally accepted procedures. Also recommended were:

1. Intra-divisional regional workshops for training, emphasizing the uses of inventory and developing an understanding as to why an accurate and timely inventory is important.

2. Establishment of a single set of data definitions based on national HEGIS (Higher Education General Information Services) definitions for all state inventory record systems.

3. Only those data inventory elements used on a regular basis in the budgeting process should be included at the state level.

4. All inventory records should reflect the current "use" of rooms, according to HEGIS methods.

Finally, it was suggested than an inventory verification process, using random sampling, be used prior to an educational plant survey. This procedure would determine if the inventory is in good enough "shape" for a survey to be conducted.

Utilization of Existing Space. The researchers found that utilization studies were only conducted at the postsecondary

TABLE 1
ALL MEASURED ROOMS

District/ Institution	Number of Rooms Measured	Total Sq.Ft. as Listed in State Inventory Record	Total Sq.Ft.as Measured by MGT	Proportional Difference	Range of Difference			
					# Rooms ±0-2.5%	# Rooms ±2.5-5%	# Rooms ±5.1-10%	# Rooms > ±10%
# 1	135	64,622	64,817	+ 0.3%	24	18	22	71
2	151	42,171	41,444	- 1.7%	53	18	25	55
3	147	82,474	79,600	- 3.5%	52	25	29	41
4	143	68,977	67,590	- 2.0%	41	35	30	37
5	138	77,584	73,888	- 4.8%	56	22	19	41
6	143	85,259	82,558	- 3.2%	32	23	23	65
7	145	62,241	60,196	- 3.3%	53	19	26	47
8	148	54,029	53,351	- 1.3%	59	15	24	50
9	145	69,581	49,858	-28.3%	54	30	19	42
10	142	102,432	96,280	- 6.0%	45	16	19	62
11	152	40,422	40,934	+ 1.3%	78	23	19	32
12	181	72,784	71,218	- 2.2%	101	25	20	35
					648	269	275	578

level. Instances were documented where unused rooms were ignored in utilization reports. It was concluded that the currently provided utilization reports were of little value to state-level policymakers. A recommendation stated that all educational levels, including public schools, conduct utilization studies. It was further recommended that the State train local school officials in the conduct and use of utilization studies and their results. Finally, utilization data was included as a part of the recommended needs determination process.

Administrative and Budget Development Processes

One specific, and frequent, legislative complaint was that the DOE caused unnecessary delays in the planning, design and construction of an educational facility. Detailed review of a number of specific construction projects failed to uncover any examples of delays at the state level. As a consequence, it was recommended that the State DOE provide a "construction package" for use at the local level, to guide a more efficient and cost-effective construction process. The State DOE in Florida already reviews plans for adherence to a uniform building code. It was further recommended that they add a quality of construction review (instituting a minimum and maximum cost range) and also monitor key decision points in all EFCO construction projects at the state level.

It was found in the review of the budget process that the Legislature had done two things since 1974. First, it had tried to make people who were program experts responsible for the

assembly of a complex budget document without providing the necessary staff expertise to ensure success. Second, the Legislature had virtually removed the Governor from the review and recommendation process in the preparation of a budget request. It was also found that the Legislature had statutorily required the DOE to submit an integrated, comprehensive request for all levels of education.

The DOE response had been to submit an "integrated" request that consisted of little more than combining each educational levels' request into a single document. The budget document itself was difficult to analyze by the Legislative and Governor's staff due to:

- lack of comparable information between educational levels
- lack of historical data
- lack of background data, methodology or assumptions leading to budget figures
- very late submission date.

Recommendations called for the transfer of budget responsibilities to each educational level with final compilation being completed by the DOE central staff that reviews and compiles the operating budgets. This would allow more analysis time and comparison of operating needs and EFCO needs. Further recommendations included detailed documentation of requested changes contained in the budget and submission of the documents at the same time as the operating budget. Finally, it was recommended that the Legislature acquire the necessary staff expertise to review and evaluate the budget request.

Formulas

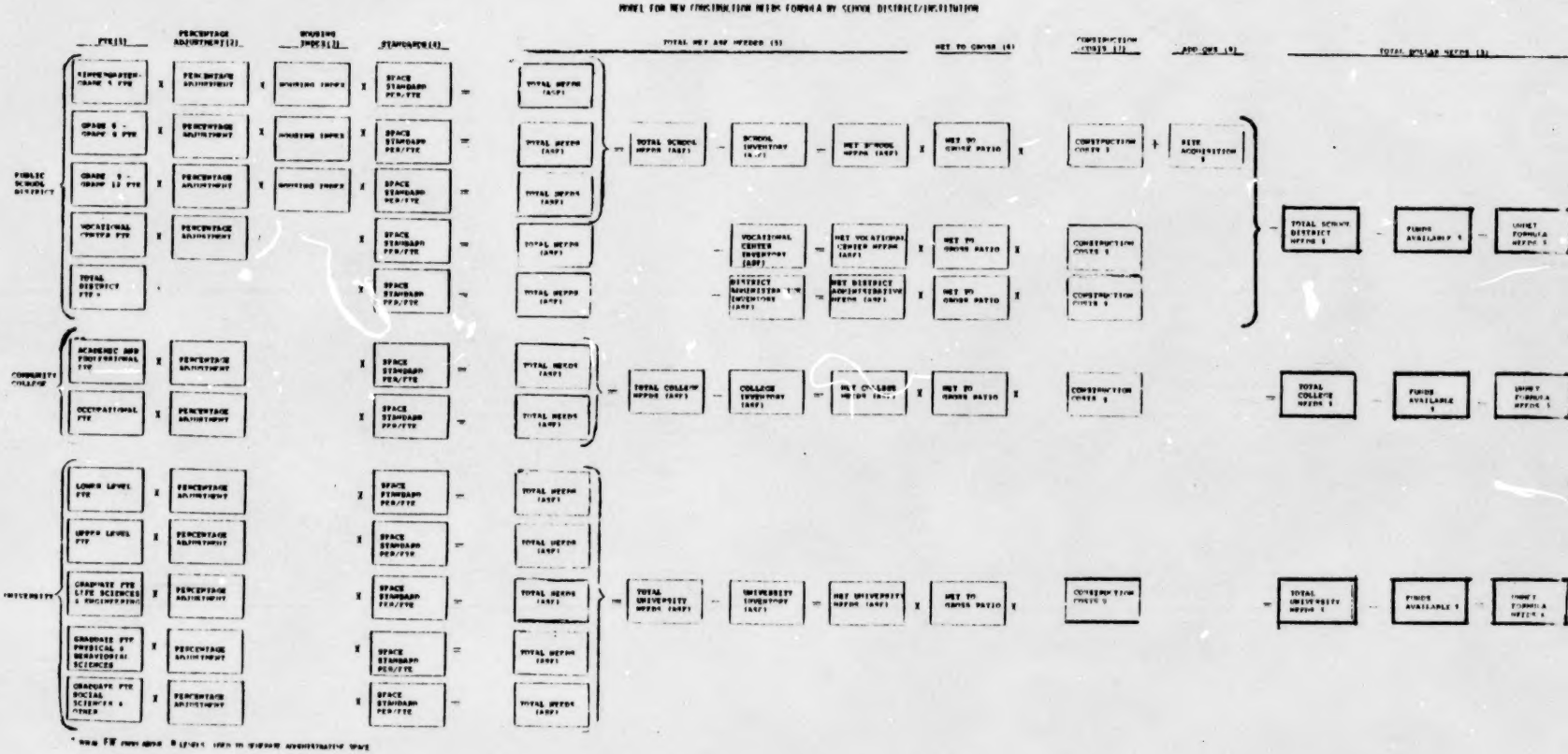
Currently the DOE utilizes several formulas to generate new construction need: one for public schools, one for area vocational centers, community colleges and universities; and one to determine remodeling, renovation and maintenance needs. The public school formula is a capacity based formula and the post-secondary formula is a total square footage formula. A total space formula identifies need by type of space for all types of space while a capacity formula focuses only on instructional space and ignores the existing need for, or excess of, support space such as offices and libraries.

All of the formulas begin by looking at the ability of existing instructional space to house the projected enrollments. The formulas do this in such a way as to ignore any existing excesses of instructional space. Excess space (i.e., space in excess of the generated need for each type of space) is "zeroed-out" or ignored, rather than applied to space needs in other categories. Thus the formula allows, and in some instances encourages, overbuilding of space.

It was recommended that all levels of education use a total space formula to generate need. The study also recommended that space standards for each level be validated periodically and changed as necessary. The recommended formula is displayed in Table 2.

In addition to a formula for determining new construction needs, a formula for determining remodeling needs was

TABLE 2



recommended. Funds would be provided for remodeling space in inventory that is in excess of needed space, i.e., "zeroed-out" space. The recommended formula is as follows:

Remodeling Need = RSN x $\frac{CC}{3}$ where,

RSN = the Assignable Square Feet (ASF) x the Net-to-Gross Ratio

CC = one-third of the current average new construction cost (CC)

The remodeled space need (RSN) is the lesser of the total net space need in excess of inventory or the total space in excess of need for each district/institution.

Remodeling funds should be used to:

- remodel space in one area to accomodate a space shortage in another area
- provide a portion of the cost for the preservation and continued use of designated historic facilities
- provide funds for converting an existing facility into a community educational facility
- provide funds for converting an existing facility into a cooperative-use facility
- provide funds for energy projects designed to increase the energy efficiency of existing facilities.

The final formula recommended was a maintenance allocation formula. This formula would provide money for maintenance and renovation of all space, based on the age of the building and 40 percent of the current new construction costs.

Facility Maintenance Program Allocation = BV x $\frac{BA}{1275}$

where,

Building Value (BV) = RC x 40%. Replacement Cost (RC) is calculated by multiplying each building's assignable square feet (ASF) times the appropriate net-to-gross conversion ratio and that times the current average new construction costs (CC).

Building Age (BA) is calculated using the following formula:

BA = PA(1 - (PFM - PV)) + 1 where,

PA = Prior year building age

PFM = prior year facility maintenance program allocation

PV = prior year building value

1275 = the sum of the years' digits assuming a 50 year building life

Allocation

Under current law each level of education is allocated an amount of funds equal to its relative share of need. At the university level these funds are subdivided for specific projects. At all other levels each board receives its relative share of the total educational level's allocation. The main problem with the latter approach lies in the fact that very often a board does not receive sufficient funding to meet a single major construction project. To offset this problem the Legislature created a program of advance funding.

It was recommended that the Legislature appropriate to each level an amount of funds for new construction and an amount of funds for remodeling equal to the formula-generated need of that educational division. The Division Directors would then allocate the appropriated funds to projects after considering such things as:

- percent of unhoused students
- phase of the project
- potential for community use, etc.

Also recommended was that advance funding be repealed since the recommended approach would fully fund projects.

The maintenance and renovation allocation would flow automatically to each board without division intervention or action.

Just as in the current process, the recommended allocation approach is not without its disadvantages. Some districts/institutions might not receive funds for new construction during some years if their projects are low on the list of statewide priorities within that division. The process requires the Division Director to make difficult and perhaps unpopular decisions regarding the priority of projects. With input from staff, and employing reasonable criteria, the study concluded that informed decisions can be made on how best to use public funds to meet the construction needs in Florida schools.

The advantages of such an approach far outweigh the disadvantages. Among the advantages are:

1. It provides an allocation sufficient to eliminate the need for advance funding.

2. It eliminates the need for a district/institution to "shoe box" appropriated, but unencumbered funds for several years while accumulating enough money for single projects.

3. It relies on the Educational Plant Survey process to identify and prioritize new construction and remodeling needs at the local level.

4. It allows small districts to compete with large districts on an even basis.

5. It determines statewide needs as a basis for appropriating funds to educational divisions.

6. It requires an examination of needs, within a division, on a statewide basis, using consistently applied criteria as a basis for allocating funds to projects.

7. It fulfills the stated intent of the Legislature in Section 235.002, Florida Statutes - that is, to distribute funds equitably to all levels of education.

Conclusion

Florida has made it a state priority to understand and thereby effectively alter the administration of its large and costly educational fixed capital outlay program. Many aspects of the MGT study are directly applicable to other states who, based on the survey of other states, are also faced with providing adequate educational facilities. This study has closely examined and evaluated Florida's EFCO program, and has provided recommended improvements in administration, needs assessment and an allocation mechanism designed to equitably meet educational fixed capital outlay needs.

The final report was published in two volumes and an executive summary. To obtain copies of the report and/or futher information, contact:

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